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PUBLIC UTILITIES COMMISSION

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April 23, 2013

Honorable John J. Cleveland, Senate Chair
Honorable Barry J. Hobbins, House Chair
Energy, Utilities and Technology Committee
115 State House Station
Augusta, Maine 04333

Re: LD 1252, An Act To Improve Maine's Economy and Energy Security with Solar and Wind Energy

Dear Senator Cleveland and Representative Hobbins:

The Public Utilities Commission (Commission) testifies neither for nor against LD 1252, An Act To Improve Maine's Economy and Energy Security with Solar and Wind Energy. This bill addresses three different methods to provide ratepayer incentives for small solar and wind projects: 1) rebates; 2) above-market contracts; and 3) portfolio requirements.

<u>Solar and Wind Rebate</u>

LD 1256 would reinstate funding for the solar and wind energy rebate program. This program is administered by the Efficiency Maine Trust (EMT) and provides rebates for the purchase of certain solar and wind energy equipment. The program would be funded through assessments on electricity ratepayers in an amount of 0.005 cent per kWh or approximately $450,000 per year in total ratepayer costs.

As a general matter, rebates provide a relatively straightforward and understandable incentive mechanism for customers who are considering the purchase of small solar or wind facilities. Rebates are a transparent incentive in that the amounts customers will receive and the total cost of the program are readily apparent.

<u>Community-Based Renewable Energy Pilot Program</u>

LD 1252 would increase the limit on the total amount of renewable capacity allowed under the community-based renewable energy (CBRE pilot) program from 50 MW to 60 MW, increase the price cap on long-term contracts for eligible solar generation from 10 cents/kWh to

15 cents/kWh and index the contract prices to the Consumer Price Index (CPI). It also extends the program termination date to from December 15, 2015 to December 31, 2017.[1]

To date, the Commission has authorized four long-term contracts under the CBRE program for a combined capacity of 19.58 MW:

- Exeter Agri-Energy LLC, a 980 kW anaerobic digester system located on the Fogler Farm in Exeter, 20-year contract with BHE at an electricity price of $0.10/kWh. The project achieved commercial operations in January 2012.

- Jonesport Wind Power, LLC, a 4.8 MW wind project located in Jonesport, Maine, a 20-year contract at a price of $0.085/kWh. The project has not begun construction or operation.

- Lubec Wind Power, LLC, a 4.8 MW wind project located in Lubec, Maine, a 20-year contract at a price of $0.085/kWh. The project has not begun construction or operation.

- Pisgah Mountain, LLC, a 9.0 MW wind project located in Clifton, Maine, 20-year contract at a price of $0.093/kWh. The project has not begun construction or operation.

The Commission has certified three small solar photovoltaic projects (less than 40 kW) under the program. However, each of the projects has employed a net metering structure and has elected the REC multiplier incentive rather than a long-term contract. The lack of any long-term contracts for solar projects may indicate that the 10 cents/kWh price cap in the current statute may be too low to cover the cost of small solar installations. The increase in the price to 15 cents/kWh, as would occur under this bill, may have the effect of allowing solar projects to participate in the long-term contract incentive mechanism. Similarly, allowing the price cap to increase with the CPI may also make more renewable energy projects viable under the program.

CBRE above market long-term contracts have a corresponding cost to ratepayers. The changes to the program that would result from the bill could increase those costs, but it would be difficult to predict such cost changes with any confidence. The above market costs of the Exeter Agri-Energy contract (the only long-term contract project that is operating), which are borne by Bangor Hydro Electric (BHE) customers, are currently approximately $10,000 per month. Assuming the other approved projects commence operations at the beginning of 2014, the Commission estimates that BHE ratepayers will bear above market costs associated with these contracts of $2-3 million per year or approximately $20 million on a present value basis. Moreover, the Commission has recently issued a request for proposals for long-term contracts with CBRE project. Accordingly, there may be additional long-term contracts under the program.

[1] For a more detailed discussion of the CBRE program, please refer to the Commission's report on the program that was submitted to the Committee on January 15, 2013.

As mentioned above, it is difficult to predict additional ratepayer costs that may result from the CBRE and the changes contemplated by LD 1252. An order of magnitude of the cost to ratepayers of the additional 10 MW contemplated for the program can be calculated by assuming that the additional 10 MW are under long-term contracts at a 10 cents/kWh price that increases at 2% annually, an assumption of CPI growth. Based on forecast of future electricity markets prices and on an assumption that, on average, the facilities will operate 50% of the time, the additional costs to ratepayers would be in the range of approximately $2 million per year.

Solar Carve-Out

LD 1252 would require the Commission to submit to the Legislature, by January 15, 2014, a report on options for establishing a solar carve-out or set-aside within the State's renewable portfolio standard (RPS). As discussed by Commission testimony in reference to LD 646, a portfolio requirement or standard is a legislatively mandated requirement that a specified portion of electricity supply used to serve retail customers come from statutorily defined renewable resources. The premise of a portfolio requirement is that a state legislature specifies the required percentages and which renewable resources should qualify, and then the market operates to satisfy the requirement at the lowest cost.

A solar carve-out or set-aside is a requirement that a certain percentage of electricity supply must come from solar facilities. Thus, solar resources must be used for a percentage of the RPS even if there other eligible renewable resources that could fulfill the RPS requirements at a lower cost. Thus, a solar carve-out or set aside would necessarily increase the cost to ratepayers of the State's portfolio requirement. The amount of the increase would depend on the precise parameters of the program. To understand what this cost increase might be, the Legislature would have to consider the cost of solar power, the appropriate percentage requirement and a cap on the program through the establishment of an alternative compliance payment. In addition, supply and demand for solar power in the regional market would have to be assessed, because solar RPS requirements and sources of supply in other states would affect costs in Maine. Such an analysis and review would be complex and require a substantial devotion of Commission resources. Thus, the Commission asks the Committee to carefully consider the number and nature of solar incentives that may be desirable before requiring the Commission to conduct a comprehensive review of a solar carve-out with respect to the State's portfolio requirement.

The Commission looks forward to working with the Committee on LD 1252 and I would be happy to respond to any questions the Committee has at this time. The Commission will also be present at the work session to assist the Committee in its consideration of this bill.

Sincerely,

Paulina McCarter Collins

Paulina McCarter Collins, Esq.
Legislative Liaison

cc: Energy, Utilities and Technology Committee Members
Jean Guzzetti, Legislative Analyst